Please note that the conference call was accompanied by a complementary presentation in PDF format available on the Group's website: http://www.coface.com/Investors, under the "Financial results and reports" section.

H1-2024 results

Conference Call Transcription

Paris, 5 August 2024

coface
FOR TRADE

Presentation

Xavier DURAND, CEO

Thank you very much, and good evening, everyone. Welcome to this mid-year announcement for Coface. I realize that we're at the beginning of August and everybody's nearing the end of this season. So, thank you, we really appreciate your time being with us.

I'll start directly with the highlights on page 4. We've reported net income in the first half of 2024 of €142.3m with very strong solvency at 195%. That means 10% profit growth from last year for Coface. You see the main points underneath, which are pretty much a continuation of the story that we've been laying out for the last few years. Turnover is at €923m, down 3.1% all else equal versus last year. Notably, trade credit insurance premiums are down 5.3% at constant FX. Pretty much the same trends going on as I said. Client activity remains slightly negative for the first half. Client retention continues to be high, although down from the record that we had in 2023. Pricing is better than last year, but almost in line with the historic trend of coming down by 1.5% a year. Good news on business information, which posted double-digit growth again at almost 17% at constant FX. Factoring, which is sometimes seen as a bit of a leading indicator, is down 2.6%. Q2 was up 1%, so we had a slightly better Q2 than Q1. You see that the losses have been pretty benign through the quarter, with the net loss ratio at 35%, which is actually five points better than last year. That brings the net combined ratio to 63.5%. This is very strong performance by every measure. Our opening year reserving is stable, and reserve releases on prior financial years are higher. The cost ratio increased by 3.2%. This was virtually the same trend as in the first quarter. The cost ratio was 28.4% at mid-year, which reflects both lower revenues, a better mix and the continuation of our deliberate investments in line with our Power the Core strategic plan. We made a few other changes – we are moving Western Africa and Morocco from the Mediterranean region to the Western Europe region. Most of the clients in that area are actually from France. So, it makes more sense for us from an operating standpoint. You'll see this change starting in the third quarter reporting, so it hasn't been applied in this one. As you have seen, the annualised return on average tangible equity at 15.3% is extremely high for Coface. We have a solvency ratio which remains above the target range of 155% to 175%. So, by all means a very strong first half for Coface.

In terms of the economy, we navigate a pretty uncertain world and that remains. We have seen inflation decelerate. We have seen a slower economy and this weighs on premiums. Political uncertainty remains high. This is a busy election year for many places in the world, probably even a record this year. We've seen a number of uncertainties in France that have resulted from elections, and we still have to go through the US election. We continue to see an uptick in insolvencies in pretty much every market around the world. By now, it is clear that insolvencies are higher than what we saw in 2019, prior to the COVID crisis. Of course, public debt and public deficits remain challenging – public debt soared during the COVID period and that leaves less room for governments to navigate. And finally, we are seeing increased pressure on companies' earnings. I think that was pretty clear from the latest round of announcements over the last couple of weeks. It's unclear where China is going. The economy is still growing but more slowly than in the past. Then there's the tech boom that's been driving a lot of attention. It's uncertain whether that's going to last. We see that the normalisation we've been talking about for three years now continues to happen. I think we've made a lot of progress on inflation, but we always thought that the last mile would be the hardest. So, when and if central banks are going to respond, and how they respond to inflation that is slower but not quite yet where they want it, amid economic conditions that may be getting a little bit more difficult is a question that everybody has got on their minds. Trade has somewhat returned to normal after COVID, but we're seeing more intense geopolitical activity, particularly in the Middle East. There are more challenges around trade between the big blocs – the West and China and Europe and China – as well as continued pressure in terms of what the transition means from an energy standpoint. So, there's plenty to go around in terms of things that can impact the economy. It's very difficult to say where everything is going, but I think we remain extremely true to our motto, which is be prepared and help our clients deal with this volatility. As you know, we are very much a short-term credit company, and our job is not to plan for one scenario but to be ready to respond quickly and efficiently to whatever the world has in store for us.

We are making progress on our CSR strategy. On page 6, the darker green areas are where we have been making some progress during the quarter. This might be a little bit repetitive for those of you who follow our calls, but we track our progress versus the key goals, which are at the bottom of each column. I just want to highlight that our exposure to ESG projects has doubled. Things have been going quite well on that front – we are continuing to drive down the emissions that we create through our investment portfolio. We are bringing to fruition our responsible IT plan, which means putting more pressure on those who we work with in terms of how much carbon is being consumed in providing those services or equipment. We are making a lot of progress from an employer standpoint. Our last survey, which we did not long ago, shows that the employee brand is strong. Our employee NPS score in terms of working for Coface is now clearly above the benchmark in our industry. So, I think the fact that the company is performing is also being felt inside the company and creating a good environment for people to work. We are working more on disabilities because this inclusiveness and inclusion is a big theme here. We are conducting a new carbon footprint assessment. We did one a couple of years ago and we want to show how much progress we've made and make sure we track that progress. We are ready for the CSRD rollout, which is important for companies like us. And then our ratings keep coming in and EcoVadis gave us a silver medal, which means we're in the top 15% companies. That was in June. So, this confirms that the efforts we're making are being noticed in the market. And finally, we're making progress on including all our employees and making sure our policies are clearly laid out and known and we bring people into this initiative. So, we're making good progress on CSR.

Going back to the business on page 8, I've mentioned some of these numbers. Revenues are down 3.1%, premiums are down 5.3%. This is similar to what you saw in the first quarter. However, other revenues are up 6.5%. As I said, business information is going well and grew by almost 17%. Third-party debt collection is quite a small business, but one that's seeing good traction. We now have good systems to do this on a global basis and we're getting more than 20% growth on that line. Factoring did better in Q2, which is encouraging. And then the fees we get from our insurance clients, even though the premiums are down 5%, fees are up almost 9%. That makes a difference on our P&L. So, very good execution from the teams here on fees.

On page 9, you can see the breakdown by region, and there are no big surprises here. Western Europe is down almost 4%. Northern Europe, Central Europe, so clearly the toughest part of the European economy now, which includes Germany and Central Europe, is down about 7%. The bright spot is Med and Africa, which continues to grow. That is the region for us that's been growing the most consistently over time – we're up 6% there. Negative growth again in North America at -6%/7%, that's really driven by client activity. Asia Pacific is down 9% and, after a couple of years of very strong growth, Latin America is seeing a bit of reduction at -8%. As you are aware, we've moved Mexico from Latin America to North America, because it made more sense. So that's why you see some differences in the numbers, but overall, this reflects the global economy and the fact that commodity prices have normalised, and client activities are being impacted.

On page 10, you see some of the same trends that we've already highlighted. New business is doing better than in 2022 and 2023. We see increased demand for the product in an environment that is clearly perceived as riskier, and I think that helps. We're also benefiting from the investments that we've made and planned in our Power the Core plan. The retention rate remains extremely high, but not quite as high as it was in 2023 and 2022. That reflects a very competitive environment and the fact that we have put in place risk mitigation plans on several accounts that we felt weren't balanced in the way we'd like them to be. Prices remain very good as you can see – better than 2022 and 2023. Volume is the really the big one – that explains a lot of our lack of growth this year at -0.1% through the first half of the year.

On the next page, the loss stories are pretty benign. You can see the quarters lined up on the top and there's not that much to talk about. We see the number of claims continue to increase, which started in mid-2021 after the COVID incentives or mitigation plans were put in place by the governments. We are obviously seeing lower premiums have a mechanical effect on the loss ratio and, in terms of severity, insolvencies are on the rise. They started with the smaller companies and are clearly working their way up the food chain. Larger companies now have P&Ls that are a little bit more under pressure than before. You can see that on the bottom right, we continue to book reserves at similar levels as before. The blue part at -44% shows strong reserve releases from prior vintages, so again, very strong execution on risk here.

On page 12 is the mid-year picture compared to full years. Not that much to report. We had a spike in Latin America in 2023 and this situation is obviously better this quarter. That's the smallest and most volatile region for Coface, accounting for just 4% of revenue.

On page 13, you can see the story developed by quarter, which is probably more interesting. It's a pretty benign story. With the volatility in Latin America, it's clearly not an easy region, but one that is essential for us in terms of our ability to play a global game. And as you know, there are very few firms that are able to do this well.

On the cost side, you see a continuation on page 14 of some of the trends I highlighted in Q1. Costs are up 6.9% overall. The cost ratio, if you look to the bottom right, rose from 29.6% to 32.6%, a gross increase of three points. If you look at where that comes from, 1 ppt is due to the decrease in premiums, 1.6 ppt is the investments that we're making that we clearly laid out in our Power the Core plan, and then we've taken on cost inflation of about 1.9 ppt, which is the result of some of the delayed cost increases that we saw during the inflationary period in 2023 and the end of 2022. This is partially offset by better fees and higher business information revenues, which had an impact of 1.5 ppt. And I think it's interesting to note here in terms of our execution of the business information strategy that despite all the investments that we're making in this line of business, and they are quite significant at this stage – we are well above 500 people in this business that did not exist four years ago – it has been a neutral investment both in terms of the P&L and the cost ratio. So, underneath the performance of Coface, there is another revolution happening that gives us quite a lot of insights into data, decision science and technology that we didn't have before. I'll turn it over to Phalla to talk about page 15 here.

Phalla GERVAIS, Group CFO and Risk Director

Thanks, Xavier. So, on the reinsurance side, it's pretty similar to what we had in Q1 with the premium cession rate at 27.7% and a claims cession rate at 22.1%. Of course, the reinsurers are also following the fortune that we have on the claims side. This leads us to a reinsurance result of -€64m. This is a good result for the reinsurers and of course we are negotiating good commissions.

If we move to page 16, the net combined ratio stands at 63.4%, down 2 points compared to the first half of last year with the net cost ratio increasing and the net loss ratio decreasing by 5 points. Of course, in Q1 2023 we had these large claims in Latin America that we don't have this year. If you look at the net cost ratio at 63.7%, this is really similar to what we had in Q1 2024.

Moving to page 17 on the investment portfolio, the mark to market value stands at almost €3.2bn. This is similar to Q1 2024. Having said that, between the two quarters we have paid €194m in dividends generated by the operating cash that we have due to very good business performance, which is helping on this side. Recurring income in H1 2024 amounted to €48m. You can see that the average accounting yield is increasing and now stands at 1.5% for the first half of this year, which is a very good performance, and our new money is now invested at a much higher rate than previously.

In terms of realised gain and loss, we have realised gains from divesting money market funds. Of course, last year we had a high level of cash that we invested in money market funds while waiting for the dividend payment and the first tranche of the Tier 2 debt payment. And when we used this cash, of course, we sold the money market funds and realised the gains. This more than offset the continuous unrealised loss that we booked in our investments in real estate funds, at a much lower level than what we booked last year. In terms of FX, we continue to book the negative impact of hyperinflation in Turkey and Argentina, and again at a lower level than in previous years. Insurance finance expenses stabilised at almost €18m – a similar amount in each of the first two quarters. This leads us to net income of €142.3m, which, as Xavier said, is up 10% on last year, with operating income up 17.5%.

Turning to page 19, return on average tangible equity. IFRS equity edged down from €2.051bn to just over €2bn. Nothing much to be reported here, except that we paid our dividend of €194m, which is accounted for in the net income of the period. Return on average tangible equity increased from 13.4% to 15.3%, mainly driven by the very good financial results compared to last year.

For this quarter, of course, it's half year, so we have a Capital Management section. I'm moving to page 21. The total balance sheet stands at €7.8bn. We discussed the insurance investments, which is our investment portfolio, at €3.2bn. Factoring assets have not changed much at almost €3.1bn. These are fully backed by factoring liabilities and of course our financing liabilities are Tier 2 debt, the two tranches of €300m that we issued last year, the year before, including a good level of interest that you should see on this page. As a reminder, we have been upgraded by AM Best and we are rated A (Excellent) with a stable outlook, which is very good for us. Book value per share stands at €13.4. We are trading slightly below this level today, but it was above this level in the past couple of weeks.

Let's move now to the solvency ratio, which is very robust. We moved from 199% at the end of 2023 to 194%. You can see the path here. We have been negatively impacted by capital consumption on the insurance part. But this is partially offset by the very good business performance reflected in own funds variation and own funds creation. On the right-hand side, we have the usual stress test, so the first block is the financial market stresses, and you can see that in all cases we would be above the upper bound of our comfort zone. The second block is the one-in-50 crisis scenarios like the 2008 financial crisis and similar scenarios. Here again, we would be at the upper bound of our comfort zone.

Moving to page 23, you will see details of our SCR, our capital requirements. You can see the first part, which is the insurance underwriting risk, market risk, counterparty risk. And then you have the factoring capital requirement at €243m, which has not moved much. Total SCR, so capital requirement of €1.377bn compared to our solvency 2 eligible own funds of €2.68bn. Xavier, I'll hand the floor back to you Xavier.

Xavier DURAND, CEO

So just to wrap it up, a good start to the year, up 10% in terms of net profit at €142.3m. You've seen that the combined ratio at 63.4% remains below the through the cycle targets. The economy is clearly rather slow. Where it's going, I think is anybody's guess at this stage. We are aware of the tension that governments are going through between trying to bring down inflation and at the same time not killing the economy. A lot of political uncertainty, a lot of geopolitics, a lot of trade issues, a lot of technology changes and questions. So I would say this is a good place for our business in terms of demand. Things are clearly more uncertain in terms of risk. Returns are good. I think what we feel good about is the growth in our business information business and fees compensates – now it's visible in our balance sheet – some of the decline in trade credit insurance. So even though these businesses are still rather small, they are helping the overall picture for Coface. We're making investments, but these investments are covered by our revenues. We now have well over 500 people dedicated to this in the company. This is core growth, and it really gives us better insights and helps us better understand the power of technology and how we can use it to put it to work for the company. We're going to continue to do what we said we would do, which is invest in data and connectivity and services as we described during the Power the Core plan at the beginning of the year. The credit cycle is clearly entering a new complicated phase, but that's what we do is help our clients navigate through this environment. That's about as much as I can say. We're going to turn it over to those on the call for questions.

Q & A session

Michael HUTTNER (Berenberg) Thank you. Good afternoon. I had lots of little questions as usual, but the bigger one is what do you think about what has happened over the past couple of days? Is it something which really does affect us, or could there be something hidden out there that we haven't thought about, or we have thought about and it's now coming true? I don't know. The share prices and interest rate changes have been quite sudden. That's the first one. And then lots of little questions but one is on business information. Q1 was plus 22% growth, Q2 if I use the 17% for the first half is +12%. I know you don't like giving guidance, but the trend is not up here. Is there anything you can say about this? And then on the real estate, Q1 was -€6.5m. I noticed you say total impairments were minus 4 point something million in H1. So, does that imply that real estate turned positive in Q2? Thank you.

Xavier DURAND (CEO, Coface) OK, so I'll leave the real estate question for Phalla, and I'll try to provide some clarity on the other ones. There is lots of volatility, but this is market volatility. It's very hard to comment or derive any fundamental views from what's happening in the markets. I think there's been a lot of hype around technology and AI, and we've seen these Magnificent Seven stocks that people have been following. Has it gone too high? I don't know. We don't base our strategy on the markets. We are very conservative in terms of our own portfolio. The thing we have noticed is companies' earnings are more under pressure than in the past, which I don't think is really a surprise. What's more interesting is the timing. I think we have seen normalisation over the course of the last few years. We probably would have expected pressure to build up a bit sooner. So, QE had lasting effects. We're seeing now that companies are a little bit more under pressure and that's something that we thought would happen, but it's anybody's guess exactly when that is going to be. In terms of your question around business information, I wouldn't try to read too much into one quarterly result or another, whether up or down. It's still a fairly small business that has some volatility. So, I wouldn't try to derive too much out of one figure. Phalla, do you want to talk about the real estate one?

Phalla GERVAIS (CFO and Risk Director, Coface) Yes, that's true. It has been reduced because we are seeing some, not dividend, but the rents from the real estate. So yes, it compensates for the unrealised loss that we booked in Q1 a little bit. And I'm not saying that it will be the same trend in Q3. I don't know.

Michael HUTTNER (Berenberg) But just to understand, so I was right in terms of -6.5 and -4.5 and the positive is +2.

Phalla GERVAIS (CFO and Risk Director, Coface) Yes, exactly. It's a mark to market. The market has been a little bit more positive, but you know who knows?

Benoit VALLEAUX (Oddo BHF) Hi, good evening. A few questions from myself. The first and more important one is regarding your activity. When I look at your TCI premiums, they have decreased at constant FX by 3% in Q1 and broadly 7% in Q2. When I look at the volume effect, it's still close to 0% as in Q1. Pricing is broadly the same as in Q1, but client retention is still decreasing a little bit meaning that in terms of new production the increase in Q2 versus Q2 is relatively modest. So, so I just wanted to understand when you look at this, what your view of client activity in terms of stronger competition and a stricter underwriting policy, because you are relatively conservative in your underwriting policy. And linked to this question, I know that you don't like to provide any guidance, but is it fair to assume after the decrease in H1 that on a full year basis we might assume a slight decrease? I know that H2 should be a bit more favourable in terms of comparison base, but any colour or any comments on this would be great. And then just to know regarding France in terms of risk management if you took any measures linked to political issues or not. And the third question is related to your solvency margin, which is at 195%, so 20 percentage points above the high end of your target range. It's great to have a high solvency margin in the current environment, but the main question is how do you see your target range? Because I know economic growth is quite modest. Do you plan to use part of this excess solvency next year, for example by changing a part of your reinsurance strategy a little, which will alter your target level? Or are you fine with 195% and plan to keep it at this high level for quite long period of time? Thank you.

Xavier DURAND (CEO, Coface) OK, so quite a quite a broad range of questions here. On the activity, you understand how this works, right? We set a minimum premium in the contracts with the clients and then the clients make declarations of their actual turnover, and that varies by region and by contract in terms of how frequently it's done. So, it reflects the turnover of our own clients. We tend to be more towards material goods than services and tend to be a little bit more sensitive to commodity prices. So, I think that's really what these numbers say. We're comparing to a pretty high base last year because we had both growth and inflation, and this year it's the reverse. I'm not going to make any forward-looking statements, because I think it's anybody's guess where the economy is headed and whether we are going to see a slowdown, a real slowdown in the economy. I would just like you to think through how we had a couple of years with strong activity driven in part by inflation, and now inflation has clearly come down and the economy is returning back to 2.4% growth rate. And so that's what you're seeing in the numbers.

In terms of France, we don't take broad measures, because what kind of certainty do you have on anything right now? It's unclear what's going to change, when it's going to change, how it's going to change and to what extent it is going to be positive or negative for companies. It's far too early to have any view. We have to see what plays out and we have to understand. That's the mantra of what we do as a business. We don't take broad measures or take those kinds of bets, but we are keen on understanding what certain policies and what certain trends do to companies in detail company by company. We have five million counterparties out there. So, when we understand what's going on, then we will derive consequences. But if it's needed, if it's required, if it's warranted, if it makes sense. I don't see anything that I can point to at this stage that would allow us to do that. The only thing I would tell you is France is about 14% of our business. So, it is by far not the majority of what we do.

In terms of solvency, I think we've maintained the same stance for the last few years. I'll repeat it again. It's true that we're above our target. I'm sure you agree that it's good to have a strong solvency position and a strong profitable business at this point in the cycle. I think it's a good place to be. We always said that we would manage capital in a very disciplined way. So, we will allocate capital to core growth if core growth is there. We will allocate capital to acquisitions if we find good ones at the right price with the right skills or scale benefits for Coface. And then we will be disciplined about returning capital to shareholders that we don't believe we need. So, there is no change here in terms of our policy or the way we think of the business.

Benoit VALLEAUX (Oddo BHF) Just regarding retention or reinsurance coverage, would you envisage slightly changing or increasing your retention or not at all?

Xavier DURAND (CEO, Coface) Well, these decisions are made once a year. They are made towards the end of the year. Again, we don't provide any forward-looking statements. And the other thing is that the partnerships with reinsurers are a long-term deal, right? We need reinsurers to take the risks, the individual risk and the collective risk that we cannot keep on our own, and we have long-term partnerships. It's a very stable base of reinsurers that we work with. So, these are things that need to be considered over the long term, not just the short term.

Amalie ZDRAVKOVIC (Deutsche Bank) Good afternoon. This is Amalie from Deutsche Bank. Thanks so much for taking my question. I just have one from my side. So, given what we're seeing in the economy and the markets now and what you've touched upon already, which industries and geographies are you looking to reduce exposures in, and which do you see as more attractive markets and geographies now? Thank you.

Xavier DURAND (CEO, Coface) You know, Amalie this is a question again that is dealt with on a micro basis. So Coface has about €700bn of credit exposure over five million different lines covering 200 different countries. And we're pretty much invested, as you know, in virtually all the aspects of the world economy with a skewed presence toward industrials and bit less in services. About 50% Europe, 50% rest of the world and no huge geographic concentration. So, I think what we have seen over the course of the last few years is that those economies that had variable interest rates had more difficulties around construction and real estate. We have seen retail be difficult. We have seen supply chains and changes in technology impact the automobile industry. So for me, there's not a whole lot of news at this point. I think what we tend to do is to look at a micro company-by-company trend. We obviously publish sector and country evaluations and these are revised on a regular basis and they're publicly available, but then we tend to make decisions on a company-by-company basis based on where they are exactly in their value chain and which of these things are impacting them more. So it's very hard to answer on a broad base because that's not the way we run the business.

Phil ROSS (BNP Paribas) Good afternoon. A higher level question from me first, please. If I look at slide 11, the bullet point commentary on the right-hand side, it's quite negative around claims frequency, severity and pricing as well. And then if I look at the quarterly prints on the left-hand side, you're trending downwards quite nicely over the quarters. Just looking for your perspective on how you would link those two aspects.

Xavier DURAND (CEO, Coface) I'm sorry you're referring to page 11, slide 11, sorry to interrupt. You're looking at the comments on the top right?

Phil ROSS (BNP Paribas) The three aspects of normalisation versus the fact that your loss ratio pre-reinsurance is trending downwards quite nicely in a positive direction. So, I guess it's a chance to give yourself some credit. I don't know whether you feel that you're navigating the negative scenarios by reserve strength, good loss control, responsible investment, etc.

Xavier DURAND (CEO, Coface) Well, clearly, we are disciplined. The one thing I would say, which I've been saying for three years, so apologies to those of you who have heard this probably 12 times already, but I'll say it one more time. We expected things to start normalising when the COVID measures ended in mid-2021. And it's taken three years to get to where we are. We have seen company insolvencies rise from a very low point in the middle of 2021. That was the lowest point I think historically that I've ever seen, because the governments threw a lot of money at companies and these companies would probably have had more difficulties and earlier difficulties without that money, and then that continues. So we've been prepared for this. It's not like we didn't see it coming. It happened slowly, which gives us an opportunity to really assess very precisely how long we want to stay in a given name and when we think it's not reasonable to be there anymore. So that's the work that the company is doing. We make 12,000 credit decisions per day. So to go back to Amalie's question, it points to a very industrial and very detailed way of managing risk, which is not broad based, which is not based on making bets on where the economy is going but really looking at what's happening company by company. As things have been developing steadily and risks have been increasing, but at the same time this has taken a long time, so it has given us the opportunity to adjust. I think that's what you see in those numbers.

Phil ROSS (BNP Paribas) I appreciate you have said things along those lines previously. But it's just helpful to hear how you see it currently. So, thank you for the observations. I had one more slightly detailed question if that's OK. On the half-year statement, I was looking for the risk adjustment for non-financial risk which I think you gave us for the half-year last year. I can't see it in the report. So, I'm just wondering if that has changed or if there is a number you can give us for the risk adjustment figure? Thank you.

Xavier DURAND (CEO, Coface) That's one for Phalla here.

Phalla GERVAIS (CFO and Risk Director, Coface) Yeah. I think it's just an adjustment. We'll follow up with you, Phil.

Phil ROSS (BNP Paribas) OK. All right. Thank you.

Michael HUTTNER (Berenberg) Thank you. Thanks for this opportunity. I had three. The first one, they're kind of scenarios really. If interest rates were to continue falling sharply, so 100 bps or whatever, can you explain what the impact would be on the discounting and on the financial expense, investment financial expense? I know they would both go down, but I wonder what the relative speed is and how much they would go down. How much of a drag would that be in the very short term in terms of reported numbers? And then the next one is on inflation. I think I misunderstood your inflation in the past. I thought it was just the inflation when I'm buying my coffee and it keeps going up. But I think the implication here is inflation for you is because you have lots of clients which are in commodity businesses. And so when commodity inflation is high, you get more revenues and when it's lower, you actually get lower revenues. It's not just the rate of change that changes, you actually get less revenues. And I just wondered whether you could give us a feel for how much of a factor that is or could be. And then the last one is very cheeky one. I think you explained once that thanks to technology and having more data, you can now reach decisions almost globally very, very quickly. We use Zoom, but maybe you use Teams or just a phone call and you can get all your people together very quickly and make decisions. How many of those calls have there been, or has the frequency of these calls changed much? Thank you.

Xavier DURAND (CEO, Coface) OK, let me start. I'll leave the first one for Phalla. Inflation is indeed how much you pay for stuff, right? So, what can I say? If you buy your coffee at €5 and the next day €1, that's a significant change. You don't tend to see those kinds of changes in consumer products. But when it comes to commodities, you do see much more rapid and larger magnitude changes. So, for our clients who sell those products, we ensure that they get paid for the value of that product when they sold it. That can vary quite significantly, and our billing is based on the percentage of that price. So, it's exactly the same thing as inflation, except the inflation for commodities is stronger or there's more volatility and more short-term movement than you see in consumer prices.

When it comes to technology, I think this is something we continue to invest in very regularly with determination. It's not a short-term endeavour. It's a long-term endeavour. Every year, technology allows us to improve our scores, to improve our speed, to improve our accuracy, to make less errors, to connect people with each other better. So, what technology does is that a lot of the decisions that we initially make manually become more automatable. We tend to see that the digital tools become more reliable and more effective. It's not one-size-fits-all, it's score by score, sector by sector, country by country. So it's really bottom-up groundwork, and it takes a long time to develop those skills and those tools. So I think you're seeing that improvement happen in every industry, but in our industry as well, and it's percolating through our system. So I can't tell you how many calls we make because today 60% of the decisions we make are made by computers. So there isn't actually a call happening. There is a computer decision and we make 12,000 of these every day. So we don't have people calling 12,000 times. That would not be manageable.

Michael HUTTNER (Berenberg) Thank you. And I know I'm being really cheeky, and I know you don't provide guidance, but is there any one off – Warren Buffett calls it people swimming naked when the tide goes out – that you're aware of at the moment?

Xavier DURAND (CEO, Coface) What do you mean? Counterparties out there, companies?

Michael HUTTNER (Berenberg) Yes. I suppose I'm asking about Q3, whether there were any larger events in July that would be worth flagging.

Xavier DURAND (CEO, Coface) Well, imagine Michael, we manage 5 million credit lines. So there's always something going on in the world. I mean that's our world, where we have exposures of over €600bn on five million different lines on probably three million companies in 200 different markets. So we are somewhat involved in pretty much anything that happens in the credit space. So it's a bit difficult to answer your question because, yes, there are things going on, there's always something going on in our business. That's what our people do, and we monitor those things very closely. The whole game is to try to be there as long as it is reasonable to be there and try to get out before it's not reasonable to be there anymore.

Benoit VALLEAUX (Oddo BHF) Thank you. Another few questions. The first one is related to BI. When you look at your Q1 figures, you reported a smaller benefit from this activity. Now it's neutral in H1 and, as you said, you shouldn't pay too close attention to one quarterly figure, and you mentioned it on the revenue side, but I just wanted to know whether there is or has been an acceleration in your investment in Q2 and if you want to maintain the same pace of growth in your investment by year end and in 2025, given that you have this contribution target for 2027. Do you expect this business to start to be profitable in 2025 or 2026 or maybe more towards the end of the plan? Second question is related to insurance finance expenses. There is some volatility on the quarterly figures. So if you look at the last year, Q1 was very low, but there was an increase in Q2, the peak was in Q3 last year, then a decrease in Q4 and increase in Q1 and decrease in Q2. So do you have any view on what we could expect for H2 this year at this point in time? And the third question is related to your solvency margin. Again, sorry, I know there is this Solvency 2 review. You have your own internal model. Do you have any room to improve your model? I mean do you have any plan to improve this in the near future or not at all. Thank you.

Xavier DURAND (CEO, Coface) I'll start with the with the last one. Model improvement is something we work on all the time, but it's a very regulated space with very clear detailed rules with regulators basically controlling everything we do. So there is a program to continuously try to improve and refine our internal model as we do for credit scores, but it's never something that is radical. There's a whole program around it which is being worked on in very close supervision and coordination with the regulator. So that's just as much as I can tell you there.

In terms of business information, our view hasn't changed. This is an internal startup which we think warrants our time, our attention and the investments that we're making into it. We weren't intending to send any particular signal by saying it's neutral. I mean it's roughly neutral on the P&L. I wouldn't try to read any quarterly number all that smartly because it is such a moving space in which we're making quite a lot of investment, where we're signing up new clients, we're developing new tools. We have new people, we have new value propositions every literally every week. So I wouldn't try to read too much. I think the goal here, as we said in our Power the Core plan is to both try to grow it as quickly as it is feasible without, obviously, impacting the P&L in a way that would be hard to bear. We set a goal in 2027 just to highlight the fact that we think over the medium term this thing is going to be profitable. This hasn't changed. We haven't changed our view. It is in a space that is actually allowing us to learn a lot because we have a lot more brains. We have a lot more resources around data and technology than we had before. And so I think it's good for the company, but I wouldn't try to read anything specific in terms of timing or profits or growth. Phalla, if you want to take the IFE question.

Phalla GERVAIS (CFO and Risk Director, Coface) The first question on IFE. There are a couple of things on IFE, you know that it really depends on two items. The first one is the level of technical reserves and of course the basis which is our technical reserve has increased compared to last year. The second item that impacts IFE is the level of interest rates. On this side, last year the interest rate movement was much more volatile than this year. So this year is probably a little bit more stable, and I think that's driving the comparisons that you are mentioning between the two periods. So, the level of technical reserves has increased, the business has increased, and last year I think the IFE was really linked to the movement of interest rates that were more volatile. And this year you can see that the interest rates are much more stable, and that explains the level of IFE as well. So it's been more stable for now. For now. I'm talking about half year of course.

Xavier DURAND (CEO, Coface) Ok, look, I think we're right on time. So, I just want to thank all of you for logging in, at the beginning of a summer day and a summer weekend in August. We will be meeting again for Q3 and, in the meantime, thank you very much for your attendance today.

End of transcript

CONTACTS

ANALYSTS / INVESTORS

Thomas JACQUET: +33 1 49 02 12 58 – thomas.jacquet@coface.com
Rina ANDRIAMIADANTSOA : +33 1 49 02 15 85 - rina.andriamiadantsoa@coface.com

MEDIA RELATIONS

Saphia GAOUAOUI: +33 1 49 02 14 91 – saphia.gaouaoui@coface.com
Adrien BILLET: +33 1 49 02 23 6394 – adrien.billet@coface.com

2024 FINANCIAL CALENDAR
9M-2024 results: 5 November 2024 (after market close)

FINANCIAL INFORMATION
This press release, as well as COFACE SA's integral regulatory information, can be found on the Group's website:
http://www.coface.com/Investors

For regulated information on Alternative Performance Measures (APM), please refer to our Interim Financial Report for H1-2024 and our 2023 Universal Registration Document (see part 3.7 "Key financial performance indicators").

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